HOUSING MARKET INFORMATION

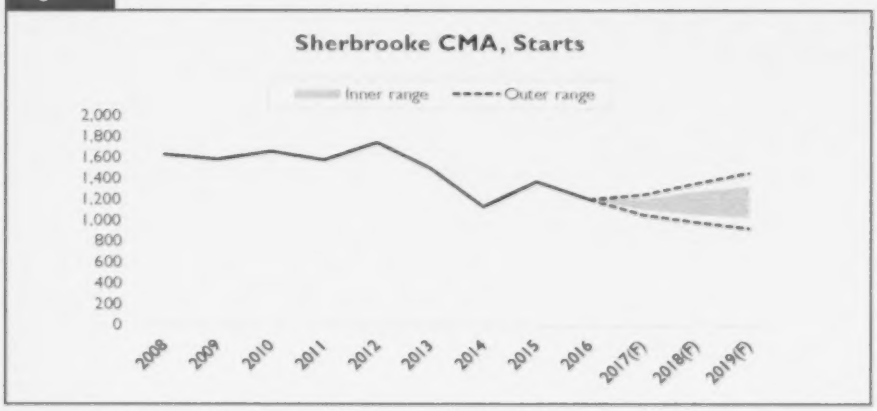
HOUSING MARKET OUTLOOK

Sherbrooke CMA

CANADA MORTGAGE AND HOUSING CORPORATION

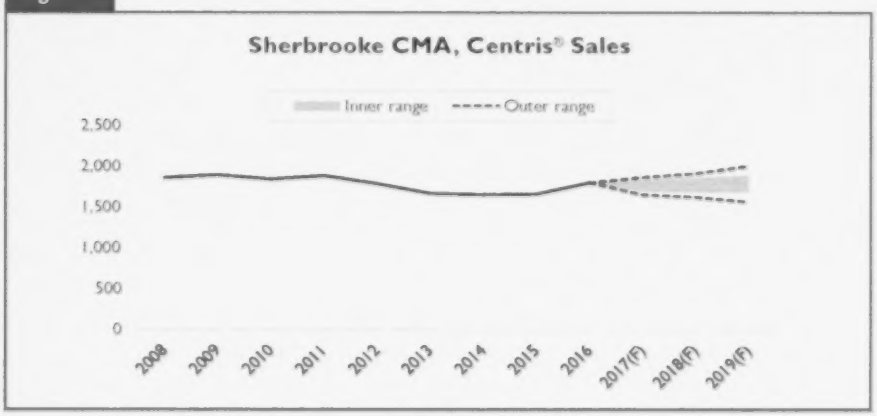
Date Released: Fall 2017

Figure 1



Source: CMHC; (F): CMHC Forecast

Figure 2



Source: QFREB by Centris® system; (F): CMHC Forecast

Highlights[1]

- Housing starts will hold steady until 2019. A slight decrease in starts in the multi-unit segment will be offset by an upturn in the single-detached segment.
- Resales will remain relatively stable until 2019. The resale market will tighten somewhat, but it will nevertheless remain favourable to buyers.
- The rental housing vacancy rate will continue to increase in 2017, reaching 6.7%. In 2018 and 2019, a decrease in supply will bring the vacancy rate down to about 6.5%.
- Economic and demographic factors will support moderate housing demand over the forecast horizon.

New home market: starts to remain stable until 2019

Housing starts in the Sherbrooke CMA will remain fairly stable until 2019. They are expected to range between 1,050 and 1,275 units in 2018, and between 1,025 and 1,325 units in 2019. In the single-detached housing segment, construction should follow a slightly upward trend, which will be supported by growth in full-

[1] The forecasts and historical data included in this document reflect information available as of October 2, 2017.

Canada

CMHC SCHL

time employment among people aged 25 to 44[2] and by a tightening of the resale market.

In contrast, multi-unit housing starts[3] should decrease slightly due to the relatively high vacancy rates for conventional rental buildings. However, the construction of seniors' residences could partially offset the decreases in the conventional rental segment[4]. Construction in the semi-detached and row housing segments, as well as in the condominium segment, will remain relatively stable.

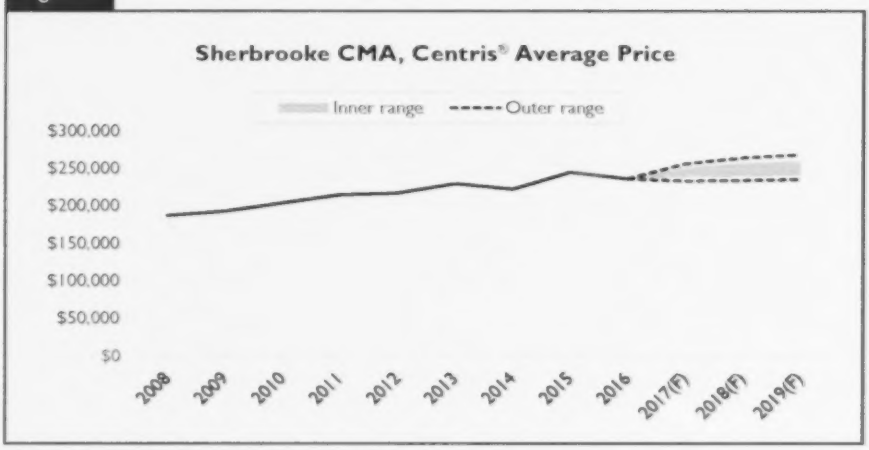
Resale market: moderate price growth over the next few years

After posting a notable increase (8.3%) in 2016, Centris® residential sales should decrease slightly in 2017, and stabilize over the following two years. Demand will be supported by the favourable level of full-time employment among people aged 25 to 44, but will be dampened by competition from new homes and the increase in mortgage interest rates expected over the next few months.

Since the end of 2016, tightening conditions have been observed in all market segments and are attributable to a more pronounced decrease in new listings than in sales. Still, market segments will remain favourable to buyers over the forecast horizon.

All in all, the relative stability of sales and the decrease in the number of active listings should allow for moderate price growth over the next few years. The average Centris® resale price will fall somewhere between $239,000 and $257,000 in 2018, and between $240,000 and $260,000 in 2019.

Figure 3



Sources: QFREB by Centris® systems; (F): CMHC Forecast

Rental market: the vacancy rate will rise in 2017, then fall in 2018 and 2019

In 2017, the vacancy rate in the Sherbrooke area should continue along the upward trend it has followed for the last several years, and will reach 6.7% this year. This rise is attributable to the strong increase in the number of rental units completed compared to 2016. Supported by migration, rental demand will be positive, but will be tempered by the decrease in the number of young people (aged 15 to 24)[5], a segment of the population that has traditionally sought out rental accommodation.

In 2018-2019, the vacancy rate will decrease as a result of a downward adjustment in supply, itself brought on by the decrease in starts of conventional rental buildings. Meanwhile, demand will continue to grow at the same pace as in 2017.

The average monthly rent for two-bedroom apartments, for its part, should continue to increase at a moderate pace and reach $652 in 2019. This average rent level can largely be explained by the addition of new units with generally higher rents.

Modest economic and demographic outlooks until 2019

After being on the decline for several years, the number of new jobs in the Sherbrooke area should stabilize in 2017, total employment will be around

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[2] Between August 2016 and August 2017, full-time employment for the population aged 25 to 44 grew by nearly 10%.

[3] Semi-detached houses, row houses or apartments.

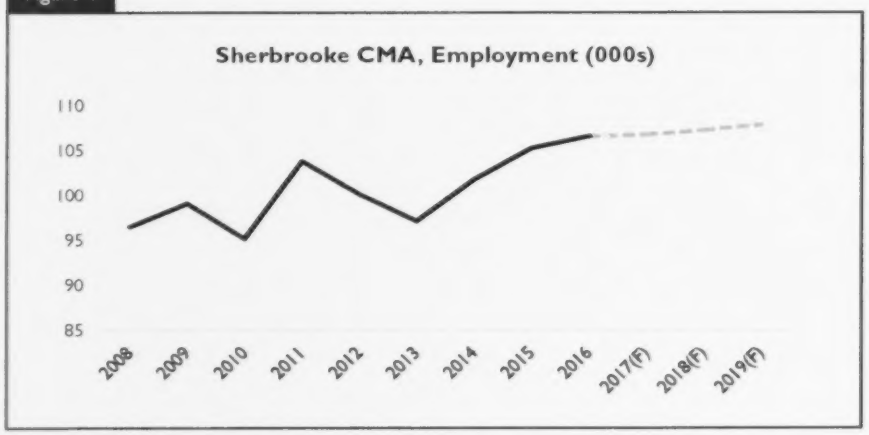
[4] Given the significant increase in the population aged 75 and up over the forecast horizon (see the section on the demographic outlook).

[5] According to data from the Institut de la statistique du Québec (ISQ). Additionally, forecasts from the Ministère de l'Éducation du Québec (2014) indicate decreases in the numbers of students at the Université de Sherbrooke and Bishop's University until 2020.

106,800 jobs (0.1% more than in 2016). Renewed employment growth is expected over the following two years, a result of the vitality of the service and manufacturing sectors. The aging of the population will strengthen employment in the health care sector.[6] Several large businesses have moved into Sherbrooke's industrial park,[7] and this, too, will ensure sufficient employment in the area.

Supported essentially by international and intraprovincial migration,[8] the population of the Sherbrooke area should remain stable over the forecast horizon (annual growth of 0.8%)[9]. This will mean weak growth in housing demand. However, the segment of the population aged 75 and over will increase sharply[10], and this will stimulate demand for housing in seniors' residences.

Figure 4



Source: Statistics Canada; (F): CMHC Forecast

Mortgage rates are expected to rise gradually over the forecast horizon

Mortgage rates are expected to rise modestly over the period 2017-2019. This increase is consistent with the expected improvement in domestic economic conditions and the predicted increase in world interest rates.

In our baseline scenario, the posted 5-year mortgage rate is expected to lie within the 4.9%-5.7% range in 2018 and within the 5.2%-6.2% range in 2019. Hence, the expected increase in this rate over 2017-2019 should be at most 160 basis points. Over our forecast horizon, mortgage rates are expected to stay below levels observed prior to the Great Recession.

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[6] The CIUSSS (Centre intégré universitaire de santé et de services sociaux) de l'Estrie -CHUS (Centre hospitalier universitaire de Sherbrooke) is currently attempting to fill over 2,000 positions as part of its www.lessoindevous.ca recruitment campaign.

[7] Soprema, Kruger and Motrec International, for example.

[8] Intraprovincial migration could be lower, however, if the Montréal area economy remains strong, since the majority of net intraprovincial migration comes from that area.

[9] As a comparison, from 2002 to 2016, annual population growth in the CMA hovered around 1.1%.

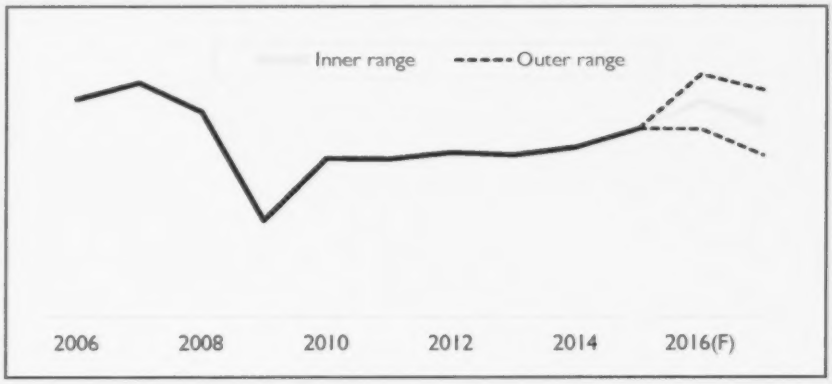
[10] According to the ISQ's base case, the segment of the population aged 75 and over will grow by 5.1% annually between 2017 and 2019.

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.



* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Forecast Summary Sherbrooke CMA Fall 2017									
	2014	2015	2016	2017(F)		2018(F)		2019(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	369	305	278	265	295	270	320	270	345
Multiples	759	1,062	919	835	905	780	955	755	980
Starts - Total	1,128	1,367	1,197	1,100	1,200	1,050	1,275	1,025	1,325
Resale Market									
Centris® Sales	1,649	1,657	1,796	1,690	1,830	1,675	1,860	1,680	1,890
Centris® Average Price($)	222,047	244,607	236,047	238,000	251,000	239,000	257,000	240,000	260,000
Economic Overview									
Mortgage Rate(5 year)(%)	4.88	4.67	4.66	4.60	5.00	4.90	5.70	5.20	6.20

	2014	2015	2016	2017(F)	2018(F)	2019(F)
Rental Market						
October Vacancy Rate (%)	5.4	5.8	6.4	6.7	6.6	6.4
Two-bedroom Average Rent (October)($)	604	608	622	632	642	652
Economic Overview						
Population	211,805	213,298	215,594	217,185	218,898	220,580
Annual Employment Level	101,800	105,300	106,600	106,800	107,300	107,900

QFREB by Centris®. The Centris® system contains all the listings of Québec real estate board.

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 2nd October 2017. (L)=Low end of range. (H)=High end of range.

It is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey). Statistics Canada. Centris®. CMHC Forecast (2017-2019).

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate.
Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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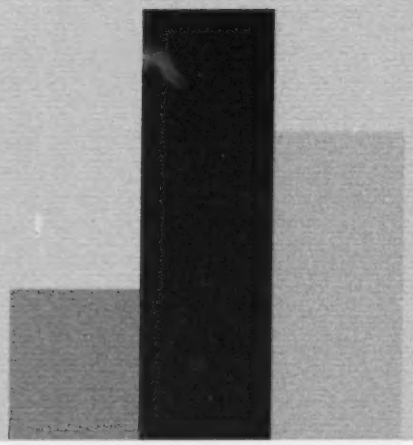

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